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GREAT LAKES POWER CORPORATION LIMITED

Annual Report 1966

GREAT LAKES POWER CORPORATION LIMITED

1966 Annual Report

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GREAT LAKES POWER CORPORATION LIMITED

General Offices:
122 East Street
Sault Ste. Marie, Ontario

Board of Directors

J. B. CRONYN Toronto
R. L. CURRAN Sault Ste. Marie
DR. R. L. HEARN Queenston
W. M. HOGG Sault Ste. Marie
F. E. HOLLINGSWORTH Sault Ste. Marie
F. S. HOLLINGSWORTH Sault Ste. Marie
A. B. McLEAN Sault Ste. Marie
J. D. McPHAIL Sault Ste. Marie
J. H. RATCLIFFE Toronto
W. P. SCOTT Toronto
S. M. WEDD Toronto
W. P. WILDER Toronto

Officers

F. E. HOLLINGSWORTH Chairman of the
Board of Directors
W. M. HOGG President
F. H. MacKAY Vice-President
- Electrical Operations
J. R. ANDREWS Vice-President
- Finance
C. R. WALTON Secretary
B. L. CARRUTHERS Comptroller
N. A. CLARK Treasurer

Transfer Agent and Registrar

MONTREAL TRUST COMPANY 15 King St. West
Toronto, Ontario
and
777 Dorchester Blvd. West
Place Ville Marie
Montreal, Quebec

Directors' Report

In 1966 your Company delivered 1,126,692,066 kilowatt-hours of electrical energy — 1,100,635,066 kilowatt-hours within its own system, up 7.1% over 1965, and 26,057,000 kilowatt-hours of exchange energy to Ontario Hydro. The comparable amounts in 1965 were 1,028,040,061 system kilowatt-hours and 92,859,460 exchange kilowatt-hours, a total of 1,120,899,521.

Precipitation was down from 1965. However, with reduced exchange energy to Ontario Hydro and some increase in purchased energy from them, the Company was able to deliver more exchange kilowatt-hours in 1966 than the previous year and was still able to maintain high levels in their water storages at the beginning of 1967.

The down time of certain customers' plants due to labour troubles adversely affected the Company's December 1966 and early 1967 revenues.

Operating revenues totalled \$8,258,981 for the year, an increase of \$452,997, or 5.8% over 1965. The energy generated from the Company's own stations was down 1.4% from the previous year. The increase in kilowatt-hours sales resulted in an increase in the net exchange of power from Ontario Hydro as explained above.

Operating expenses, including general taxes but excluding depreciation, were up \$261,269 or 13.1%. There were increases in purchased power, operation and maintenance. The increase in the latter two expenses was mainly caused by labour costs and the continuation of the unusual maintenance into 1966 from 1965. Higher assessments and rates were responsible for increased property taxes in Sault Ste. Marie, Michipicoten Township and various school sections in the rural areas. The Directors are concerned with the increasing costs of maintaining your Company's standard of service and providing proper maintenance of its facilities.

After deductions for interest and related charges and provision for depreciation and income taxes, net income for 1966 was \$2,259,831 or \$1.85 per share on 1,221,467 shares. Last year's net was \$2,172,440 or \$1.79 per share on 1,211,977 shares. Reduction of taxable income for capital cost allowances, resulting from more construction during 1965, were not available to the same extent in 1966. This was partly responsible for the higher income taxes during the year and restricted the increase in net income.

The Company will claim for tax purposes capital cost allowances in excess of the depreciation recorded for 1966, which results in an estimated reduction of \$151,000 in income taxes. This reduction is reflected in the consolidated statement of income in this report and compares with the \$211,100 reduction for 1965. The total amount by which income taxes have so been reduced in this and prior years is \$3,345,700.

CUSTOMERS

Power is being supplied to Abitibi Paper Company, The Algoma Steel Corporation and its Algoma Ore Properties Division, Linde Gases Division of Union Carbide Canada, Mannesmann Tube Company, The Algoma Central Railway, Renabie Mines, Weyerhaeuser Can-

ada and a number of smaller industries. Power is supplied to Ontario Hydro for distribution in the Chapleau area. The City of Sault Ste. Marie is supplied with power for distribution therein and in adjoining areas. Power is retailed by the Company in twenty-six communities and municipalities, including surrounding rural areas.

During the year approximately \$626,900 was added to Utility Plant. Additions included power lines, services to new customers and improvements to generating and substation facilities.

Power is being produced in nine hydro-electric generating stations with an aggregate capability of 192,000 kilowatts, all interconnected with 312 miles of transmission lines. The Company sells 12,500 hydraulic horsepower to the Abitibi Paper Company from the power canal at Sault Ste. Marie, Ontario. In addition, electrical energy is available from Ontario Hydro, which is delivered as required over the Company's interconnection with the Hydro System. During 1967 studies and appraisals related to developments for future load increases and for improvements within the Company's system will continue to be processed.

FINANCIAL

All interest payments and sinking fund provisions of the Company's first mortgage bonds and debentures for the year 1966 have been made. Also, during that year, these bonds and debentures were purchased in sufficient amounts to meet in advance \$501,900 of the sinking fund requirements for the year 1967, leaving \$93,000 of the requirements to be met in this year. This requirement was fully discharged on February 1, 1967 by purchase and deposit of the related bonds.

During 1966 purchase warrants and employee options were exercised for 7,415 and 2,075 common shares respectively. At December 31, 1966 there were 1,221,467 common shares outstanding.

Four quarterly dividends of 30c per share were paid during the year, making a total payment of \$1.20 for each share outstanding for the full year.

In view of the Canada Pension Plan becoming effective January 1, 1966, the Company's Retirement Annuity Plan for its employees was amended as of the same date with improvements. This plan has been in operation since 1940 and takes into consideration credits for past Company service. There are no unfunded liabilities in connection with the plan.

Your Board of Directors expresses its thankful appreciation to the employees and officers who have contributed so materially to the accomplishments of the year.

On behalf of the Board of Directors,

F. E. HOLLINGSWORTH, *Chairman.*

W. M. HOGG, *President.*

March 20, 1967.

Consolidated Statement of Income and Retained Earnings

GREAT LAKES POWER CORPORATION LIMITED
AND SUBSIDIARY COMPANY

FOR THE YEAR ENDED DECEMBER 31
1966 1965

Operating Revenue		
Electric	\$ 8 196 127	\$ 7 743 130
Hydraulic	62 854	62 854
	8 258 981	7 805 984
Operating Expenses		
Operation	1 041 576	955 397
Purchased power	391 566	298 219
Maintenance	548 720	518 059
Depreciation	1 126 499	1 065 656
Taxes, other than income taxes	253 599	202 607
Directors' fees	13 985	13 895
	3 375 945	3 053 833
Operating Income	4 883 036	4 752 151
Other Income		
Interest	11 830	11 037
Discount on redemption of bonds and debentures	80 405	30 190
Capital gains (Note 3)	30 613	—
Income Available for Interest Charges	5 005 884	4 793 378
Interest Charges		
Interest on long-term debt	851 517	892 688
Bank interest	—	13 468
Amortization of debt discount and expense	37 047	33 568
	888 564	939 724
Less — Interest charged to construction	3 811	28 286
	884 753	911 438
Net Income Before Income Taxes	4 121 131	3 881 940
Provision for Income Taxes (Note 4)	1 861 300	1 709 500
NET INCOME	2 259 831	2 172 440
Retained earnings at beginning of year	12 328 546	11 530 000
Add —		
Contributions in aid of construction	6 535	14 742
	14 594 912	13 717 182
Deduct —		
Dividends declared and paid	1 462 115	1 388 636
RETAINED EARNINGS AT END OF YEAR	\$13 132 797	\$12 328 546

Consolidated Balance Sheet AS AT DECEMBER 31, 1966

ASSETS	1966	1965
Utility Plant		
Stated on the basis of fair value of \$22,200,000 as at December 31, 1949 of property acquired as an entirety as appraised by H. G. Acres & Company, consulting engineers, plus subsequent additions at cost, less retirements	\$56 216 793	\$55 777 715
Less — Accumulated depreciation	12 708 577	11 671 722
	<u>43 508 216</u>	<u>44 105 993</u>
Current Assets		
Cash	471 533	130 223
Accounts receivable	809 794	780 179
Materials and supplies, valued at average cost	204 028	140 002
Prepayments	10 179	46 590
	<u>1 495 534</u>	<u>1 096 994</u>
Other Assets		
Special refundable tax	87 040	—
Unamortized debt discount and expense	201 331	238 378
	<u>288 371</u>	<u>238 378</u>
	<u><u>\$45 292 121</u></u>	<u><u>\$45 441 365</u></u>

Approved on behalf of the Board:
W. M. HOGG, *Director*.
W. P. SCOTT, *Director*.

AUDITORS' REPORT

We have examined the consolidated financial statements (consolidated income statement and consolidated balance sheet) of the Corporation (the Corporation) and its subsidiary, Great Lakes Power Company, consolidated balance sheet as at that date and the consolidated income statement for the year then ended. Our examination included a general review of the accounting records and other supporting evidence as we considered it appropriate.

In our opinion the aforementioned consolidated financial statements of the Corporation and its subsidiary as at December 31, 1966 and the consolidated income statement for the year then ended, in accordance with generally accepted accounting principles, are consistent with that of the preceding year.

Toronto 1, Ontario,
January 27, 1967.

GREAT LAKES POWER CORPORATION LIMITED
AND SUBSIDIARY COMPANY

LIABILITIES	1966	1965
Capitalization		
Common shares — (Note 1)		
Authorized —		
2,500,00 shares without par value		
Issued —		
1,221,467 shares in 1966; 1,211,977 shares in 1965	\$ 3 891 646	\$ 3 754 880
Retained earnings per accompanying statement	13 132 797	12 328 546
Excess of appraised value of utility plant assets over cost as at		
December 31, 1949, less subsequent retirements	8 771 331	8 812 184
Common share equity	<u>25 795 774</u>	<u>24 895 610</u>
Preference shares —		
120,000 shares of \$25 par value each, issuable in one or more series		
Long-term debt (Note 2)	18 300 000	19 325 000
Total Capitalization	<u>44 095 774</u>	<u>44 220 610</u>
Current Liabilities		
Accounts payable and accrued	473 051	460 635
Income taxes	689 804	710 396
Customers' deposits	33 492	29 258
	<u>1 196 347</u>	<u>1 200 289</u>
Customers' Advances for Construction	<u>—</u>	<u>20 466</u>
	<u>\$45 292 121</u>	<u>\$45 441 365</u>

THE SHAREHOLDERS

Great Lakes Power Corporation Limited (an Ontario Corporation), for the year ended December 31, 1966 comprising the statements of income and retained earnings and cash flow review of the accounting procedures and such tests of accountancy as may be necessary in the circumstances.

The statements present fairly the financial position of the corporation at the end of their operations and the source and disposition of the funds employed in accordance with the accounting principles accepted accounting principles applied on a basis consistent with the financial reporting requirements of the Canadian Institute of Chartered Accountants.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants.

GREAT LAKES POWER CORPORATION LIMITED AND SUBSIDIARY COMPANY

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1966

1. Common shares reserved for options and warrants are as follows:

Shares Reserved as at December 31		Price Per Share	No. of Shares in 1966		Proceeds from Shares Issued	Expiry Date
1966	1965		Cancelled (Granted)	Issued		
Employee Options						
9 950	12 100	\$21.60	75	2 075	\$ 44 820	December 3, 1973
500	—	19.80	(500)	—	—	December 13, 1976
—	500	28.80	500	—	—	—
10 450	12 600					
Warrants						
13 510	20 925	12.40	—	7 415	91 946	May 15, 1967
23 960	33 525		75	9 490	\$136 766	

2. Long-term debt consists of the following:

Long-term debt consists of the following:	Year of Maturity	Balance as at December 31	
		1966	1965
First Mortgage Twenty-Year Sinking Fund Bonds (authorized \$15,000,000)			
3½ %, Series A	1969	\$ 4 400 000	\$ 4 800 000
4¾ %, Series B	1972	982 000	1 019 000
5%, Series C	1973	1 522 000	1 578 000
4½ %, Series D	1976	3 400 000	3 600 000
Twenty-Year Sinking Fund Debentures			
4¼ %, 1955 Series	1975	3 646 000	3 845 000
5¾ %, 1957 Series	1977	4 350 000	4 483 000
		\$18 300 000	\$19 325 000

The corporation purchased and retired, during 1966, bonds and debentures in excess of the amounts required under the Deed of Trust and Mortgage. Accordingly the payments required to 1971 under the Deed for sinking fund purposes, including redemption of the 3½ % Series A bonds in 1969, are as follows:

1967	\$ 93 000*	1969	\$4 593 600
1968	590 700	1970	393 500
* Excluded from current liabilities		1971	393 400

Prepayments at December 31, 1965 included \$72,000 with respect to 1966 sinking fund requirements. For comparative purposes, these prepayments have been deducted from long-term debt outstanding at that date.

3. Capital gains include \$20,466 with respect to customers' advances for construction, no longer refundable.
4. As it is the corporation's intention to claim for income tax purposes capital cost allowances in excess of the depreciation recorded in the accounts, the 1966 provision for income taxes is \$151,000 less than would otherwise have been provided. The accumulated amount by which income taxes have been so reduced in this and prior years is \$3,345,700.
5. The utility plant, excluding the appraisal increment thereon and non-depreciable assets, is being depreciated on a straight-line basis over the estimated useful life of the plant. Debt discount and expense is amortized over the term of the issue adjusted for annual retirements.

GREAT LAKES POWER CORPORATION LIMITED
AND SUBSIDIARY COMPANY

Consolidated Statement of Cash Flow

FOR THE YEAR ENDED DECEMBER 31

	1966	1965
Cash at January 1	\$ 130 223	\$ 18 089
Source		
From operations —		
Net income for the year	2 259 831	2 172 440
Depreciation on utility plant	1 126 499	1 065 656
Amortization of debt discount and expense	37 047	33 568
Capital gains (Note 3)	(20 466)	—
	3 402 911	3 271 664
Proceeds from shares issued	136 766	291 799
Proceeds from utility plant retirements	57 325	58 265
Contributions in aid of construction	6 535	14 742
	3 603 537	3 636 470
Disposition		
Payment of dividends	1 462 115	1 388 636
Retirement of long-term debt	1 025 000	665 000
Additions to utility plant	626 900	926 331
Special refundable tax	87 040	—
Reduction in current liabilities	3 942	591 020
Increase (reduction) in current assets other than cash	57 230	(46 651)
	3 262 227	3 524 336
Cash at December 31	\$ 471 533	\$ 130 223

Comparative Statistical Data

	1966	1965	1964	1963
Number of communities served — retail electricity	26	26	26	26
† Total population served with electricity — retail	19 170	19 020	18 830	18 565
* Number of residential electric customers	5 793	5 694	5 467	5 187
* Number of electric customers other than residential	547	516	492	467
Electric sales — kilowatt-hours (000 omitted)	1 126 692	1 120 900	956 925	868 830
Capability of hydro-electric stations — kilowatts	192 000	192 000	175 800	175 800
Number of hydro-electric stations	9	9	8	8
Pole miles of transmission and distribution line including 15.8 miles of line operated but not owned since 1965	1 146	1 161	1 122	1 104

†—Exclusive of an estimated population of 74,700 served by the Public Utilities Commission in the City of Sault Ste. Marie and adjoining area for the year 1966.

*—Exclusive of 18,978 residential and 2,589 other electric customers served by the Public Utilities Commission in the City of Sault Ste. Marie and adjoining area for the year 1966.

Ten Years in Review

1966 1965 1964

CONSOLIDATED INCOME DATA

Operating Revenue	\$ 8 258 981	\$ 7 805 984	\$ 7 049 848
Depreciation	1 126 499	1 065 656	1 009 667
Interest on Long-Term Debt	851 517	892 688	922 630
Provision for Income Taxes	1 861 300	1 709 500	1 461 100
Net Income	2 259 831	2 172 440	2 162 929
Dividends Paid — Preference Stock	—	—	—
Number of Common Shares Issued at Year End	1 221 467	1 211 977	1 188 696
Earnings Per Share — Common Stock	\$ 1.85	\$ 1.79	\$ 1.82
Paid Per Share — Common Stock	1.20	1.15	.92 ¹ / ₂

CONSOLIDATED BALANCE SHEET DATA

Utility Plant	\$56 216 793	\$55 777 715	\$55 194 945
Accumulated Depreciation	12 708 577	11 671 722	10 794 819
Per Cent Depreciation to Utility Plant	22.6	20.9	19.6
Capitalization			
Long-term debt	\$18 300 000	\$19 325 000	\$19 990 000
Preference stock	—	—	—
Common stock equity	25 795 774	24 895 610	23 901 808
Total Capitalization	\$44 095 774	\$44 220 610	\$43 891 808
Capitalization Ratio — %			
Long-term debt	41.5	43.7	45.5
Preference stock	—	—	—
Common stock equity	58.5	56.3	54.5
Per Cent Long-Term Debt to Net Utility Plant	42.1	43.8	45.0
Common Stock Equity — Per Share at End of Year	\$ 21.12	\$ 20.54	\$ 20.11

GREAT LAKES POWER CORPORATION LIMITED
AND SUBSIDIARY COMPANY

1963	1962	1961	1960	1959	1958	1957
6 463 796	\$ 6 250 689	\$ 5 729 411	\$ 5 187 083	\$ 5 112 638	\$ 4 002 325	\$ 3 700 109
988 290	964 650	951 799	938 793	825 614	651 483	525 019
938 423	966 254	989 797	1 006 256	1 026 963	1 041 246	912 259
1 204 400	1 177 300	883 000	657 400	598 700	157 400	295 700
1 839 240	1 674 588	1 409 888	1 290 158	1 502 020	1 387 486	1 196 255
—	—	45 038	91 123	92 528	92 528	93 388
1 173 216	1 112 803	1 052 037	1 020 987	1 016 100	1 000 000	1 000 000
1.57	\$ 1.50	\$ 1.30	\$ 1.17	\$ 1.39	\$ 1.29	\$ 1.10
.82½	.80	.47½	—	—	—	—
2 875 894	\$49 708 260	\$49 253 095	\$48 861 384	\$48 300 278	\$46 984 949	\$39 598 527
9 861 726	8 894 143	7 993 124	7 088 008	6 181 868	5 402 107	4 754 488
18.7	17.9	16.2	14.5	12.8	11.5	12.0
0 583 000	\$20 976 000	\$21 719 000	\$22 162 000	\$22 555 000	\$22 898 000	\$23 241 000
—	—	—	1 813 075	1 850 575	1 850 575	1 850 575
2 676 132	20 917 492	19 615 984	18 532 818	17 282 357	15 692 476	14 395 266
3 259 132	\$41 893 492	\$41 334 984	\$42 507 893	\$41 687 932	\$40 441 051	\$39 486 841
47.6	50.1	52.5	52.1	54.1	56.6	58.9
—	—	—	4.3	4.4	4.6	4.7
52.4	49.9	47.5	43.6	41.5	38.8	36.4
47.9	51.4	52.6	53.1	53.6	55.1	66.7
19.33	\$ 18.80	\$ 18.65	\$ 18.15	\$ 17.01	\$ 15.69	\$ 14.40

Fifty Years of Development and Growth

1916 - 1966 INCLUSIVE

Great Lakes Power's ancestry goes back to two major predecessor companies: The Great Lakes Power Company, Limited which was incorporated in 1916 and began operating in that year and The Algoma District Power Company, Limited which was incorporated in 1926 and started operations in 1927. These two companies were amalgamated on October 31, 1931 under the name of Great Lakes Power Company, Limited.

The power developed from the St. Mary's River at Sault Ste. Marie was adequate for the area's need until the 1930's. In 1929 a power generating station was built on the Michipicoten River and a 110 mile transmission line was built from Michipicoten to the Sault. This transmission line crossed the Montreal River at the Upper Falls where an additional generating station was completed in 1936.

The third northern plant was constructed during the years of 1937 and 1938 at the mouth of the Montreal River on Lake Superior. The only access by land was by way of trails or tote roads, inadequate for the transportation of heavy equipment. The plant's turbine, generator and transformer made the long trip from Sault Ste. Marie via scow towed by a tug through the Canadian locks up the St. Mary's River and northward on Lake Superior to the special unloading docks built by the Company at Montreal River. The water is conveyed to the units in this plant through a tunnel, excavated through rock, and a short steel penstock.

As early as 1924, in the interest of the employees, Group Life Insurance based on length of service and earnings was inaugurated. A Pension Plan based on service and earnings was placed into effect in 1940, giving consideration for past service. Group Health Insurance for employees and their families was in operation in 1943.

The availability of power during these years helped to develop, not only the industrial life of Sault Ste. Marie, but also the mining and lumbering industries in the area north of that city. This in turn opened up residential areas and assisted in their growth, thus increasing the importance of an expanding Sault Ste. Marie as the main centre of the District of Algoma's industrial area.

Great Lakes Power Corporation Limited was created December 14, 1949 with Canadian capital. Then that Company acquired the ownership of Great Lakes Power Company, Limited and its assets through the purchase of the ownership from interests in the United States.

Since that time the Company has had its greatest expansion. Five new generating stations have been built and two others have been increased in capacity. Over 540 miles of power lines have been added and customers have increased 4,600 to a total of 6,340.

In the year 1966 Great Lakes Power celebrated the 50th anniversary of electric service to this area. Over \$56.2 million is invested in property, of which more than \$34.8 million has been added since 1949. In the year 1916 the capability of Great Lakes Power was 4,700 kilowatts, all in the old Sault Ste. Marie plant, and the consumption in that year was 16 million kilowatt-hours. By 1918 the Sault Ste. Marie plant was replaced and in the following years the number of plants increased to nine. The capability increased from 4,700 to 192,000 kilowatts and the usage of kilowatt-hours from 16 million to 1,127 million in 1966. This is an increase in capability of 40 times the 1916 figure. The growth in capacity and kilowatt-hour consumption has averaged about 5 3/8% and 6 1/16% respectively compounded annually since the Sault Plant was replaced in 1918.

Growth of Kilowatt Capability

Year Placed in Service	Generating Station Added or Increased	Net KW Added	Total KW in Service
1916	Old Sault Ste. Marie G.S. purchased	4 700	4 700
1917/8	Above replaced	10 900	15 600
1920/2	Sault Ste. Marie G.S., Nos. 14, 15 & 16 Units	5 600	21 200
1929/30	High Falls G.S., Michipicoten River, Nos. 1 & 2 Units	15 800	37 000
1931	Sault Ste. Marie G.S., No. 17 Unit	1 600	38 600
1937	Upper Falls G.S., Montreal River, No. 1 Unit	7 500	46 100
1938	Lower Falls G.S., Montreal River, No. 1 Unit	7 600	53 700
1941	Upper Falls G.S., Montreal River, No. 2 Unit	7 500	61 200
1943	Lower Falls G.S., Montreal River, No. 2 Unit	7 600	68 800
1948	Upper Falls G.S., Montreal River, dam raised	3 000	71 800
1950	High Falls G.S., Michipicoten River, No. 3 Unit	9 700	81 500
1953	Scott G.S., Michipicoten River, Nos. 1 & 2 Units	15 000	96 500
1954	McPhail G.S., Michipicoten River, Nos. 1 & 2 Units	10 000	106 500
1957	Sault Ste. Marie G.S., old 200 KW unit removed & Upper Falls G.S., Montreal River, No. 3 Unit installed & dam raised	24 300	130 800
1958	Gartshore G.S., Montreal River, No. 1 Unit	22 000	152 800
1959	Hollingsworth G.S., Michipicoten River, No. 1 Unit	23 000	175 800
1965	Hogg G.S., Montreal River, No. 1 Unit	16 200	192 000

